

ECONOMIC MEASURES (COVID-19)

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***Financial aid to small and medium-sized
entrepreneurs***

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loans and guarantees

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On April 4, 2020, the Act No. 67/2020 Coll. on certain extraordinary financial measures concerning the spread of the dangerous contagious human disease COVID-19 (hereinafter referred to as the "**Act**") was published in the Collection of Laws of the Slovak Republic and entered into force. The Act aims to provide financial support to maintain operations in small and medium-sized enterprises (i.e., enterprises with 10 to 249 employees, with an annual turnover up to EUR 50.000.000) and thus mitigate the negative consequences of the pandemic resulting from the disease COVID-19 caused by the coronavirus SARS-CoV-2 (hereinafter referred to as "**Pandemic**"). The following newsletter describes the measures adopted under the Act.

I. Providing loan guarantees

To mitigate the consequences of the Pandemic and to support the maintenance of operations in small or medium-sized enterprises under a special regulation (hereinafter referred to as "**SME**"), the Ministry of Finance of the Slovak Republic may provide financial aid through the following institutions:

- a) Export-Import Bank of the Slovak Republic a
- b) Slovenská záručná a rozvojová banka, a. s. – the *Slovak Guarantee and Development Bank*, a.s. (hereinafter collectively referred to as the "**Bank**"),

always in accordance with the Act on the State Budget for the respective financial year, on the basis and under the conditions stipulated by the Act, the agreement between the Ministry of Finance and the Bank and related regulations.

Financial aid under the Act may be provided in the form of:

- a) **loan guarantee** provided by the Bank; and / or
- b) **payment of interest on a loan** provided by the Bank (hereinafter referred to as "**Interest rate subsidy**" or "**interest rate bonus**").

Loan guarantee

The guarantee on loan provided by the Bank means the obligation of the Ministry of Finance towards the SME to satisfy the obligation under the loan agreement concluded between the Bank and the SME, if the SME does not repay the loan.

This guarantee may be provided if the following conditions are met at the date of signature of the loan agreement with the Bank:

- a) the SME is not authorized to employment recruitment for remuneration according to an authorization issued under separate regulation or temporary employment agency;
- b) the SME has no
 - debts on social insurance to the Social Insurance Agency or on compulsory old-age pension savings contributions overdue for more than 180 days; or
 - debts to the Health Insurance Company on premium for compulsory public health insurance overdue for more than 180 days,
- c) no bankruptcy or restructuring has been initiated against SME; and
- d) the SME meets other conditions specified by the Bank.

Interest rate subsidy

Interest rate subsidy may be granted to SME if the following conditions are met:

- a) the level of employment specified in the loan agreement is maintained for the period specified in the loan agreement between the Bank and the SME; and
- b) at the end of the period referred to in point (a), the SME shall not have any overdue liabilities to the Social Insurance Agency or Health Insurance Company on social insurance premiums, compulsory old-age pension

savings contributions or on the compulsory public health insurance premium, above the amount specified in the loan agreement.

If the Ministry of Finance fulfils the obligation towards the Bank under the SME's loan guarantee, it then has a receivable towards the SME to the extent of this performance. In such a case, the SME is obliged to repay to the Ministry of Finance the receivable from the used guarantee, together with interest according to the Communication from the Commission on the revision of the method for setting the reference and discount rates.

The Bank evaluates compliance with the conditions for providing financial aid to SME in accordance with the Act. For this purpose, the SME is obliged to provide the Bank with the necessary cooperation.

As of April 21, 2020, specific conditions for the provision of guaranteed loans by the Bank were announced, and the conditions below will apply to these loans.

The Slovak Guarantee and Development Bank (*Slovenská záručná a rozvojová banka, a. s.*) will provide loans from EUR 10,000 to EUR 350,000, and the Export-Import Bank of the Slovak Republic will provide guaranteed loans ranging between EUR 100,000 and EUR 500,000 (up to a maximum total amount of EUR 50,000,000). The basic condition for obtaining the loan are the following:

- the amount of the loan provided may not exceed 50 percent of the SME's turnover in the year 2019,
- the SME must operate at least one completed (comprehensive) accounting period before applying for a loan,
- the activity of temporary employment agency and / or employment recruitment for remuneration is not stated as the subject of the SME's business activity,
- no arrears on social and health insurance older than 180 days,
- no insolvency proceeding or restructuring have been initiated against SME
- the maturity of the loan is three years,
- the postponement of repayment of the principal and interests will be 1 year, while the loan will be repaid during the remaining 24 months,
- the amount of the individual guarantee is 80 percent of the remaining loan principal,
- the interest rate of the loan will be 4.00 percent p. a. as a fixed rate for the entire loan repayment period,
- the interest rate subsidy will apply to the whole interest rate,
- the interest rate subsidy will start to be paid only after the expiry of the annual loan postponement, provided that the specified conditions are met.

II. Postponement of loan instalments

The Act also introduces **the possibility to request a postponement of loan instalments** up to 9 months, under the following conditions:

- only eligible persons = clients of banks, which are **natural persons and also MSP**,
- the applicant for postponement of instalments **must not be in delay** with the repayment of the loan for more than 30 calendar days as of the date of delivery of the application,
- the applicant **must not be registered as a debtor** in default of at least EUR 100 for another loan with the same creditor.

The application may be submitted in writing and also by electronic means, according to a template defined by Act and published by the banks. If the application meets the conditions prescribed by law, the bank shall allow the debtor to postpone the instalments and shall inform the debtor of all conditions for postponement. Any of the loan debtors can submit the application, i.e., not only by the loan beneficiary but also the co-applicant.

The measures represent a legally enforceable aid which will be compulsorily granted to every eligible person if they comply with all legal conditions. If the application is incomplete or incorrect, the creditors will call for its completion or correction of errors.

As a result of the postponement of instalments, the debtor will not be in delay with repayment of the instalments, and such a situation will not be considered as a delay for the Loan Register. However, the postponement of the loan repayment does not apply to loans granted in the form of an overdraft facility or to a credit card.

For a better understanding of this measure, it should be noted that **the postponement of instalments does not mean their relief**. Although the application for postponement of instalments will be free of charge, during the extension of the repayment period, the interests will be still calculated, **and it will be necessary to repay the instalments in the course of the extended period**.

III. SIH anti-corona guarantee

Concerning the financial aid for SMEs, it is also necessary to mention the possibility of drawing advantageous loans from the planned new program of financial aid for SME called **SIH anti-corona guarantee**.

This program aims to provide a bridge loan to SME through commercial banks operating in the Slovak Republic market. Such a loan can be granted (subject to specified conditions) with **0% interest**, i.e., it can also be an interest-free loan.

This financial instrument shall consist of:

- a portfolio guarantee (80% coverage per loan, up to 50% of the total loan portfolio) for commercial banks; and
- an interest subsidy, which can be provided up to 4%, on condition of maintaining employment.

In order to receive this aid in the form of a benefit loan, **the SMEs must meet the following conditions**:

- they are established and conduct business in the territory of the Slovak Republic (including the Bratislava Region),
- they do not meet the definition of "*undertaking in difficulty*" (if they are more than three years old);
- they do not fall into the highest credit risk rating category determined by the internal rating of the bank providing the loan; and
- they do not operate in fisheries and aquaculture or the primary production of agricultural products.

The aid at the level of beneficiaries under this scheme **may be used exclusively for investments in**:

- the acquisition of tangible and intangible assets related to maintaining or increasing the number of jobs, including the transfer of ownership rights in enterprises and the additional working capital;
- working capital related to maintaining or increasing jobs and establishing, strengthening or expanding the business of the SMEs (e.g., purchasing stocks/goods/services, energy, etc.);
- working capital related to maintaining or increasing the number of jobs to promote a special approach to the disadvantaged social groups and to implement socially-oriented measures (e.g., maintaining jobs, etc.); or
- working capital to support SMEs with limited access to capital as a result of events outside their control.

The competent bank as an intermediary granting the benefit loan is obliged to assess whether the SME is eligible for the guaranteed loan.

Following a call published by the Slovak Investment Holding, on April 17, 2020, the first agreement with the participating bank - Slovenská sporiteľňa - was concluded. There is a reasonable assumption that most commercial banks in the Slovak Republic will gradually join this program. To date, a total of 9 financial institutions providing loans to SMEs have shown interest in the program.

To date, the financial allocation for the guarantee program amounts to **EUR 38,000,000** and will be distributed among registered banks in proportion to the number of SMEs' loans registered by individual banks at the end of the year 2019. In the coming days, **an increase in the amount of EUR 57.000.000 of these guarantees is expected**.

For the above parameters, each EUR 1 of the portfolio guarantee will create up to EUR 2,5 of benefit loans. At the same time, **the Slovak Investment Holding will take over part of the credit risks from banks from newly provided loans** to SMEs affected by the current unprecedented situation.

The SIH anti-corona guarantee should lead to new bridging loans with a maximum maturity of up to 4 years (including the initial 12-month period for principal and interest payments postponement), and up to almost EUR 1.2 million per loan. The supported **SMEs will be able to use credit resources for their investment and operating costs to maintain employment.**

The expected start date for the provision of the benefit loans to SMEs is **in the first half of May 2020.**

IV. Summary

As mentioned above, several forms of financial aid are currently available to SMEs from the Slovak Republic through intermediaries (Banks and commercial financial institutions). These are the following:

- a) **provision of guarantees** for loans provided to SMEs and payment of interests on these loans by the Slovak Guarantee and Development Bank and the Export-Import Bank of the Slovak Republic,
- b) postponement of repayment of existing loans provided to SMEs by commercial banks; and
- c) **the provision of guarantees for new loans** provided to SMEs by commercial banks and **the interest rate benefit on such loans.**

Other forms of aid/support for SMEs will likely be adopted soon, in which case **we will update this material without undue delay**, to provide a comprehensive list of financial assistance to SMEs.

All information is available on our website www.prosman-pavlovic.sk

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